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C O N F I D E N T I A L SECTION 01 OF 02 TOKYO 000644

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DEPT FOR EAP: HASLACH
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SUBJECT: METI'S NEW STUDY GROUP ON INVESTMENT FUNDS

REF: A. TOKYO 408

- [1](#)B. TOKYO 402
- [1](#)C. TOKYO 317
- [1](#)D. 07 TOKYO 3689

Classified By: Ambassador J. Thomas Schieffer. Reason 1.4 (b)(d)

[1](#)1. (C) Summary: A new METI study group, composed largely of investment banking or investment funds executives, will examine best practices of the most common types of investment funds and consider whether new GOJ policies are needed to support them in providing risk capital to Japanese companies.

METI officials insist the group will not propose limiting funds' activities and describe the group's objective as educating Japanese business leaders, the media, and the public, about the important role funds play in modern corporate finance. It appears unlikely the group will advocate creating new impediments to funds operating in Japan. End Summary

[1](#)2. (C) The Ministry of Economy, Trade and Industry (METI) established an Investment Funds Study Group in response to widespread Japanese misunderstanding about the role investment funds play in modern corporate finance, according to Yoshinori Komiya, Director of METI's Industrial Finance Division. The group held its first meeting February 29 and will issue a final report by the end of May.

[1](#)3. (C) Briefing Finatt and Econoff March 7, Komiya said his division had asked the study group to address two key topics. First, the group should clarify the important role investment funds play in collecting and allocating risk capital and, connected with this, identify best practices associated with particular types of funds. Second, METI would like the group to advise whether the GOJ should

consider specific policies (Komiya mentioned specifically tax policies) to strengthen the role of investment funds in supplying capital to Japanese firms.

14. (C) Komiya provided Emboffs a matrix his office prepared listing the size, structure, and investment objectives of six categories of funds: venture funds, private equity funds, regional rehabilitation funds, mezzanine funds, activist funds, and hedge funds. Emboffs reminded Komiya that a single fund could play several of these roles, depending upon market conditions and investment strategy. Komiya agreed, but insisted it was important to explain to the Japanese public the different roles funds play, although without rigidly classifying individual funds. "We need to publicize the good things funds do," he said, "because they were not well understood by either the Japanese public or the media."

15. (SBU) The 13-member study group is headed by Yasuhiro Yonezawa, professor of finance at Waseda University's School of Graduate Studies. Of the other 12 members, eight come from either the investment banking industry or investment funds themselves, including the chairmen of the Japan Private Equity Association and the Japan Venture Capital Association.

Fund managers on the panel include the CEOs of two major Japanese private equity funds (Asuka Asset Management and Advantage Partners) and the Japanese Managing Director of U.S.-based Ripplewood Holdings. The remaining four members are an attorney from the Tokyo law firm Mori, Hamada and Mastumoto; one division director each from the Japan Business Federation (Keidanren) and the Japan Chamber of Commerce and Industry; and a representative of a small-business association.

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16. (C) Komiya insisted METI is not looking for the group to recommend new restrictions on investment funds' activities in Japan. He described the group's final report as an objective yardstick against which interested observers could themselves judge the actions of funds.

17. (C) Comment: Accurate information about the role of investment funds in global capital markets is sorely needed in Japan. Past public statements by METI officials about the activities of individual activist funds (refs) raise doubts about the Ministry's own understanding of the operations of investment funds, even though the ministry backpedalled on those statements. Nevertheless, there are two reasons to be sanguine about this latest study group. First, the group's membership is heavily weighted toward fund managers and investment professionals. That fact should preclude an outcome leading to restrictions on funds' operations in Japan. Second, the Financial Services Agency (FSA), not METI, regulates Japan's capital markets and FSA is already on record supporting policies promoting Tokyo as a global financial center.

SCHIEFFER